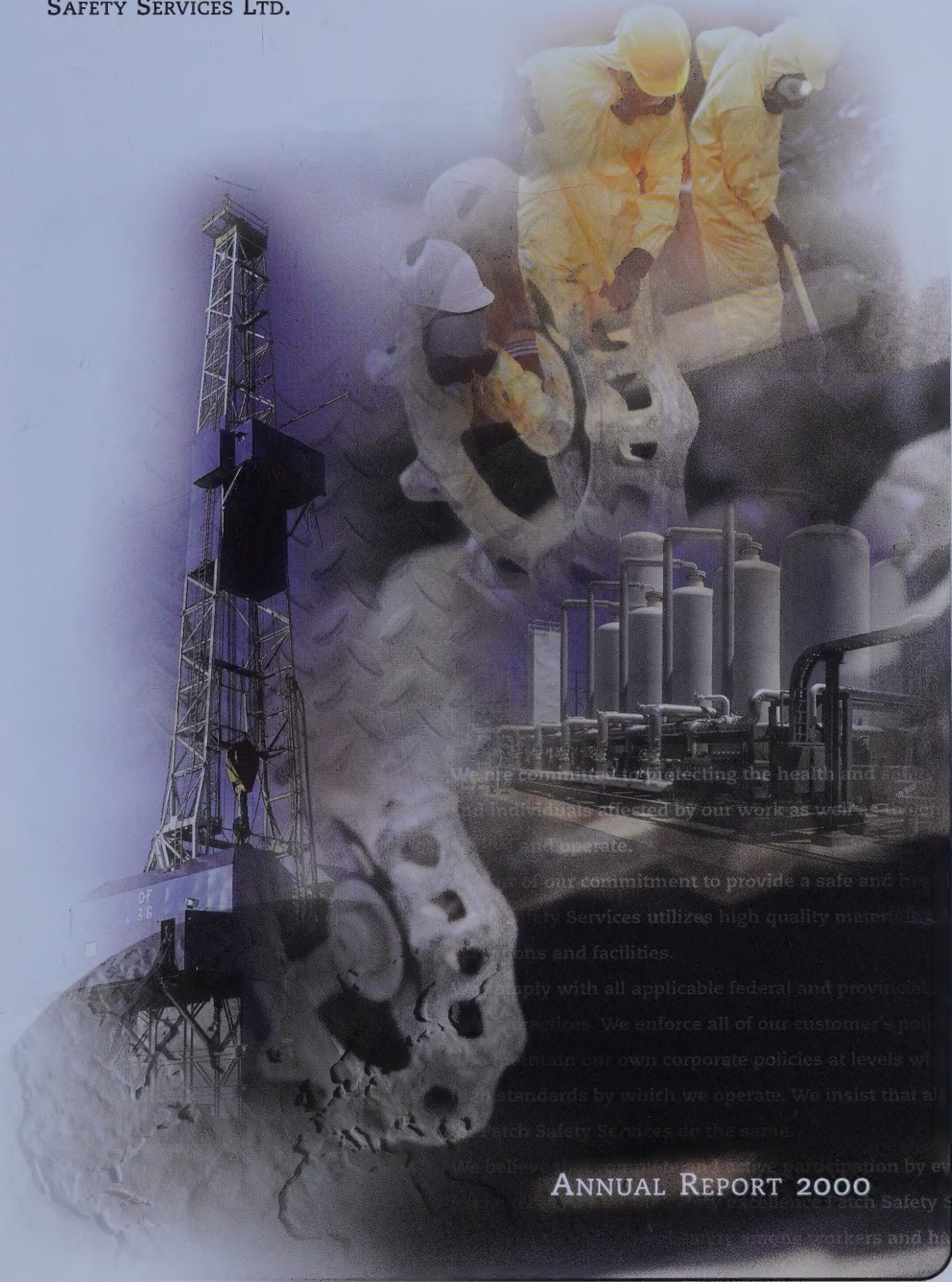


**PATCH**

SAFETY SERVICES LTD.



We are committed to protecting the health and safety of the individuals affected by our work as well as the environment in which we live and operate.

As part of our commitment to provide a safe and healthy work environment, Patch Safety Services utilizes high quality materials, equipment and facilities.

We comply with all applicable federal and provincial regulations and standards. We enforce all of our customer's policies and standards at levels which exceed our own corporate policies at levels which exceed the standards by which we operate. We insist that all our employees and contractors do the same.

We believe in the importance of employee participation by every employee in the workplace. We encourage Patch Safety Services employees to report safety concerns and hazards.

ANNUAL REPORT 2000

Notice of Annual General Meeting

*Shareholders and guests are invited to attend
the annual meeting of Patch Safety Services Ltd. on
Tuesday, May 29, 2001 at 3:00 p.m. in the Governor's Room
at The 400 Club, 710-4th Avenue S.W., Calgary, Alberta.*

We are committed to protecting the health and safety of our employees and individuals affected by our work as well as the environment in which we live and operate.

As part of our commitment to provide a safe and healthy work environment,

Patch Safety Services utilizes high quality materials and equipment, and maintains our facilities.

We comply with all applicable federal and provincial laws and regulations.

We enforce all of our customer's policies and procedures, as well as our own corporate policies at levels which exceed industry standards by which we operate. We insist that all contractors

also maintain our own corporate policies at levels which exceed industry standards by which we operate. We insist that all contractors

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also maintain our own corporate policies at levels which exceed industry standards by which we operate. We insist that all contractors

Corporate Profile

Who we are

Patch Safety Services is a fully integrated, industrial safety service company. Our services include:

- on-site safety supervision
- emergency response planning
- safety inspection
- training programs
- safety audits
- safety equipment rentals

Patch uses the latest technologies to develop safety programs that become an integral part of our clients' operating effectiveness.

It is necessary for the safety experience Patch Safety Services supports coordination of safety among workers, which are regularly reviewed.

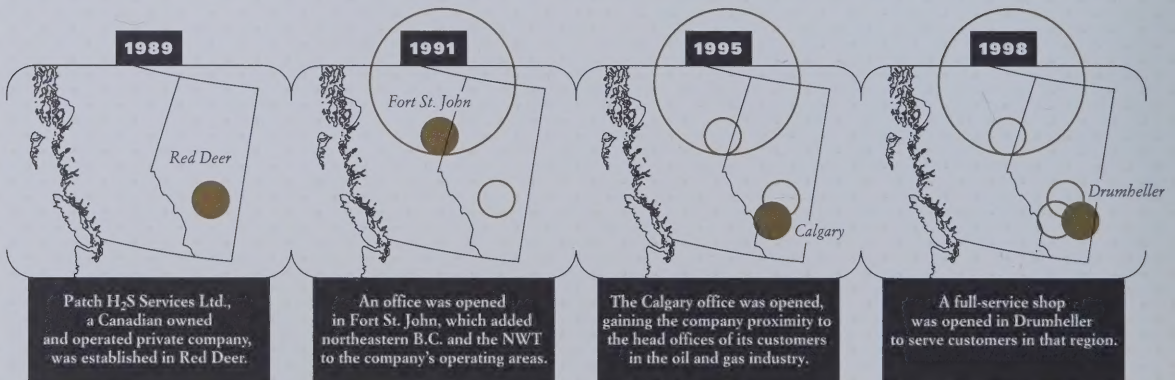
Management will develop the culture, and provide support our commitments and will take heed when making business decisions.

We will maintain Patch Safety Services as a safety oriented continuous safety and loss prevention

*We are a new public company on the prowl
for acquisitions in our field of expertise –
safety services and environmental reclamation
for the oil and gas industry.*

Where we came from...

Patch purchased the solid foundation of Patch H₂S Services Ltd., a specialist in safety on sour gas wells. The new company, Patch Safety Services Ltd., has broadened the base to include a wide range of services in the safety and environmental fields. We will still focus on the petroleum industry in western Canada, but our plans are to diversify our services and offer these services to more industries in more areas of the world.



The company specialized in safety services and equipment on sour gas wells, and built its reputation on superior service and top-quality equipment.

Where we are...

This first major transaction retained both employees and customers, and that's the pattern we intend to follow. The core management team will remain small, with the primary goal to seek out and negotiate mergers and acquisitions of complementary businesses. In the resulting transactions, we intend to keep the resources of the acquired companies since skills and materials are the heart of the safety sector. Anyone can buy assets, but it's the good will, experienced employees and reputation of the acquired company that we want.

Going public was only the first step in our plans for growth. Our financial goal is to increase revenue from \$4 million in 2000 to \$20 million at the end of 2002, and \$50 million in five years' time. With the potential acquisition of Think H₂S Safety Services, we believe our annual revenues will be close to \$10 million. And the year has just begun.

Another expansion in the works is an agreement with XS Technologies to develop remote access wireless sensing equipment and systems to monitor oil and gas wells. The initial rollout of the

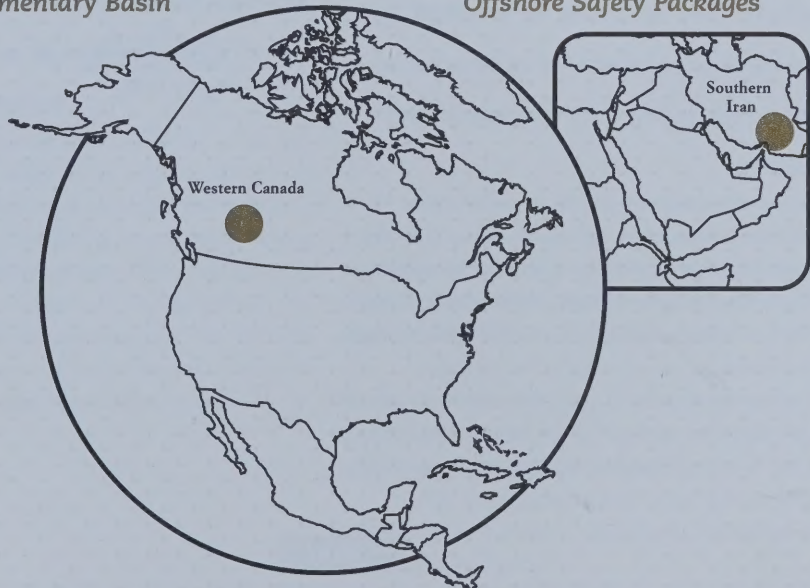
systems is underway. Our marketing effort for these systems will encompass North America and targeted international locations.

Patch added two new contracts for safety services in the Middle East in the fourth quarter of 2000. We provided safety services to a rig drilling offshore and are still providing services to a refinery facility turnaround. These contracts bring the total to four in this region of the world.

PRESENT

Servicing the Western Canadian Sedimentary Basin

Offering Fully Equipped Offshore Safety Packages



Going Public

The major event: Patch Safety Services Ltd. became a public company in September 2000, with new management leading the company in a new direction – grow from a specialist to a generalist in the safety sector, still offering quality services but a much wider range of services.

Our 1st Acquisition

The growth started immediately. Within weeks of the IPO's completion, Patch signed an agreement with XS Technologies to develop wireless monitoring equipment for oil and gas wells.

Our 2nd Acquisition

In 2001, Patch's potential acquisition of Think H₂S Safety Services will double the company's annual revenue.

Offshore Offices

The year 2000 saw the opening of offices in the Middle East, with the focus being on fully equipped offshore safety packages.

Where we're going...

Like the exploration and production sector of the petroleum industry, our sector is ripe for consolidation. No one has done this yet in the safety sector, so we plan to be the first to take advantage of good consolidation opportunities.

Early identification and negotiation of these opportunities will be our hallmark. In fact, it was a concern that we would be acquired by one of the big multinationals that spurred us to embark on the public road to growth and diversification.

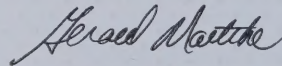
An industry we intend to add to our company list is forestry, which needs firefighting, ambulance and air monitoring services, among others. As well, we plan to pursue the bioremediation capabilities of a product that was originally designed for firefighting, to open the door to bioremediation work for Patch. And this is just the tip of the iceberg.

It goes without saying that we will continue to deliver the best in safety services to our solid base of customers drilling throughout the Western Canadian Sedimentary Basin, adding

new services and equipment to meet the demands of the booming oilpatch. But we intend to diversify into other market sectors that need safety and environmental services in all seasons, reducing our cash flow dependence on the cycles endemic to the oil and gas industry.

An exciting road is ahead of us. We are confident that, with the hard work and enthusiasm shown by our employees and the leadership given by our managers and directors, we will build Patch into a leading company in the safety services field.

Submitted on behalf of the Patch management team and Board of Directors,



Gerald Maetche
President & CEO
April 9, 2001

FUTURE

More Aquisitions Anticipated

The safety sector is ripe for consolidation.

This is already happening in other oilfield service sectors, as well as in the exploration and production sector of the oil and gas industry.

Patch is positioned to quickly act on these consolidation opportunities, expanding its range of expertise, services and locations.

More Environmental Work

Environmental work

will be aggressively pursued.

Demand for these services is rapidly growing as a result of more stringent regulatory requirements and greater environmental awareness by the public.

Health, Safety & the Environment

We are committed to protecting the health and safety of all personnel and individuals affected by our work as well as the environment in which we live and operate.

As part of our commitment to provide a safe and healthy work environment, Patch Safety Services utilizes high quality materials and equipment in its operations and facilities.

We comply with all applicable federal and provincial laws and accepted industry safety practices. We enforce all of our customer's policies at each worksite and we also maintain our own corporate policies at levels commensurate with the high standards by which we operate. We insist that all contractors performing work for Patch Safety Services do the same.

We believe that complete and active participation by everyone, every day, in every job is necessary for the safety excellence Patch Safety Services expects. Management supports coordination of safety among workers and has established performance goals that are regularly reviewed.

Management will develop the culture, and provide the training and resources necessary to support our commitments and will take health, safety and environmental matters into account when making business decisions.

We will maintain Patch Safety Services as a safe and healthy place to work by our combined and continuous safety and loss prevention efforts.

The year 2000 was extremely productive, rewarding and satisfying for Patch. Our people worked very hard to ensure the company kept all our long-term customers pleased with our professional personnel and safety equipment. And we added new customers to broaden our client base for the year 2001 and beyond.

Q1 2000

Overall, Patch had a very busy first quarter with strong support from our long-term customers accompanied by solid growth in new customers and opportunities. We maintained high utilization of both employees and equipment during this quarter, with the major focus on drilling operations. In the training classes, conducted primarily out of our Drumheller office, we noticed a substantial increase in new workers entering the oil and gas industry.

Our areas of operation ranged from the NWT, northeastern BC, and all of Alberta. Many of our projects were high-profile, critical sour wells with Emergency Response Plans in place. An ongoing project in 2000 was traffic control and onsite safety for Petro-Canada's Wildcat Hills project.

Other projects underway during this period were drilling and completions. The work averaged 16 daily jobs employing an average work force of 35 field personnel per day for the following companies:

- Canadian Natural Resources
- Coastal Energy
- Dominion
- Husky Oil
- Mobil Canada
- Canadian Hunter
- NorthStar
- PanCanadian
- Northbrook
- Samson
- Fletcher Challenge
- Newport Petroleum
- numerous other small- to medium-sized companies

In the international arena, we were completing an offshore drilling operation in the United Arab Emirates that had started in November of 1999. We had sent equipment and personnel to the area in September 1999 and were approved for operations by ADMA, which is the state-owned oil company for the Emirates. The response from the oil company was very positive for the quality of our personnel, equipment and services. We were told future contracts would be forthcoming.

Q2 2000

We were very busy with training during this quarter as many of our oilfield workers were coming in for professional upgrades during spring breakup. We also took this opportunity to renew and upgrade our full-time personnel where a need had been identified. And our fleet of equipment was upgraded and added to.

The projects underway in this period were:

Drilling projects that had started in late March and early April and continued through spring breakup

Plant turnaround work, including:

- Petro-Canada Wildcat Hills
- Flint Martin Hills
- Mobil Lone Pine
- numerous three- to five-day turnarounds

Internationally, we received a call in mid-April from the United Arab Emirates to send safety personnel and monitoring equipment to the area at once to attend to a major emergency. During setup, one of the offshore rigs had a leg collapse on a sour platform and had sunk. Fatalities had occurred. Patch responded immediately and had people and equipment to the location right away. We remained on the project for cleanup and safety support during the next four months. Once again, we were complimented on our quick and timely response by ADMA.

During the second quarter, we also made an initial trip to Bolivia to evaluate environmental projects.

Q3 2000

September was the busiest month in the 11-year history of our predecessor, Patch H₂S Services, and substantial revenues were generated.

Drilling and completions activity began to pick up during late June, and we were back in full operation in July. The continued strong oil and gas prices resulted in higher activity levels beginning in mid-July. Patch's most active area of operations at this time was in the Fort St. John area. We began to expand into new areas of work with a firefighting and environmental cleanup product called F-500. The initial response to this product has been good, and we look forward to new business within this field.

Plant work continued throughout this quarter and a major plant turnaround contract was fulfilled starting in late August with BP/Amoco at West Pembina. This project required 29 safety supervisors and two medics for a five-week period. The plant turnaround went very well during the operations.

Internationally, Patch continued to receive new contracts, and the level of activity increased because of our strong contacts in the Middle East. We were involved in expanding our contacts to Iran and were awarded an offshore contract in the Pars Oil Field of southern Iran. The contract started in November 2000.

At the same time, we were further exploring oil and gas market opportunities in South America. In our first target market, Bolivia, we had identified potential customers and planned a trip to meet with them.

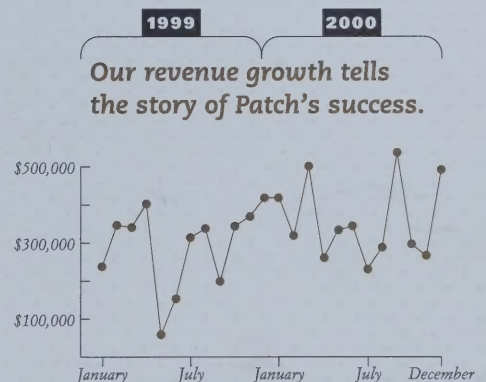
Q4 2000

Patch had steady drilling and completions work with all of our regular, long-term customers, and added several new customers as well. During this quarter, we secured winter-long contracts in the Fort St. John area with Coastal, Dominion and Canadian Natural Resources. These contracts entailed two projects with five locations for each company, and will continue for a six-month period. This activity involved up to 25 supervisors working in the area on drilling and completions projects.

In addition to the Fort St. John activity, we were busy in all other areas. Except for a short break over Christmas, most of our equipment was out in the field for this whole quarter.

Internationally, we began the offshore project in Iran, which lasted until January 2001. We also secured a contract with Schlumberger Overseas S.A. in Yemen with one supervisor. This project, which is upgrading at a plant facility in Yemen, is scheduled to last two years.

And we visited Bolivia again. There was extensive interest in Patch, and we met with many high-ranking officials, including the President of Bolivia.



The following discussion should be read in conjunction with the consolidated audited financial statements of Patch Safety Services Ltd. for the years ended December 31, 2000 and 1999.

Overview

Patch completed its major transaction effective September 8, 2000 with the purchase of Patch H₂S Services Ltd. The financial statements for 2000, therefore, include only four months of operations; prior to September, the company was a junior capital pool and carried on no business other than identifying and negotiating potential acquisitions. As a result, a comparison of these financial statements with those for the period ended December 31, 1999 is meaningless.

The discussion that follows is a comparison of the results for the four months ended December 31, 2000 to the unaudited financial statements of Patch H₂S for the four months ended December 31, 1999. Readers are cautioned that these unaudited statements were prepared by the previous management of Patch H₂S, and have not been reviewed by the company's auditors.

Results of Operations**Revenues**

Revenues for the four months ended December 31, 2000 were \$1,586,900 compared to \$1,323,686 in the comparable period of 1999. This was a result of increased natural gas drilling activity and a firming up of pricing from the 1999 levels.

Operating Expenses

Operating expenses were \$937,406 compared to \$762,597. This increase was primarily due to increased activity levels and to increased compensation rates for field employees. As a percentage of revenue, operating costs rose from 58% to 59% because price increases were unable to keep pace with increases in costs. We expect this percentage to decrease as long-term contracts expire and are replaced by contracts reflecting the higher current prices.

General and Administrative

General and administrative costs were \$760,043 compared to \$510,329. This increase is primarily a result of the increased costs associated with a public company and with the costs related to identifying and evaluating potential acquisitions.

Interest Expense

Interest expense in 2000 was \$46,147 compared to \$21,100 in 1999. This increase reflects the amount of debt used to complete the purchase of Patch H₂S, including the \$600,000 principal amount of subordinated convertible debentures issued to the previous owner of Patch H₂S.

We also face the challenge of attracting and retaining skilled workers to meet the increasing demands for Patch's services. Our strategy for addressing this is by increasing the compensation levels of our employees and by offering other incentives.

Outlook for 2001

If the previously announced acquisition of Think H₂S Safety Services Ltd. is completed, we expect operating costs as a percentage of revenue will be reduced significantly. We are also evaluating a number of other acquisitions, and their completion will result in a stronger revenue base and a reduced susceptibility to seasonal fluctuations.

International operations provide the prospect of significant revenue for the company. However, we face a number of challenges in this marketplace. We are currently reviewing the merits of continued investment in the international market; if our choice is terminating or curtailing exposure to this market, operating costs will be reduced and additional assets made available to the strong domestic market.

We anticipate that activity levels in 2001 will remain high, with strong demand for Patch's services and with prices that gradually improve as long-term contracts are renegotiated.

Liquidity and Capital Resources

The company received net proceeds of \$1,264,000 from its public offering, which closed at the time of the purchase of Patch H₂S, and had cash reserves of approximately \$1,528,000 at that time. As at December 31, 2000, the company had approximately \$328,507 in working capital and had an unutilized line of credit in the amount of \$190,000. The company had long-term bank indebtedness of \$462,500 (\$150,000 of which is repayable in 2001), which bears interest at the rate of prime plus 1.75%, and \$600,000 in subordinated convertible debentures, which bear interest at the rate of 6%. We believe that this operating line, combined with cash flow from operations, will provide us with sufficient funds to maintain operations at current levels and to complete the construction and purchase of additional equipment.

In late 2000, we arranged for the construction of two office trailers at a cost of approximately \$60,000 to complement our existing fleet of air trailers. We also agreed to lease 17 new trucks to modernize our truck fleet. The initial cost of these trucks will be offset by the sale of existing trucks.

Risks and Uncertainties

Demand for the company's services is dependent on the level of expenditures by oil and gas companies on exploration and development drilling, primarily for natural gas. These expenditures are influenced by a number of factors, including commodity prices, taxation and regulatory changes, access to pipeline capacity and changes in equity markets.

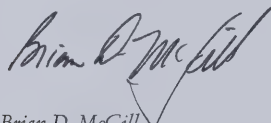
The company's safety business faces risks caused by the seasonality of oil and gas drilling and an adequate supply of skilled workers. Most activity for the oilfield safety business in western Canada occurs during winter months. We are addressing these seasonal fluctuations by increasing revenue from natural gas plant workovers, which commonly occur during the spring, and by increasing revenue from international operations, which are not affected by road weight restrictions or inaccessibility of remote locations during warm months. However, there is no assurance that these initiatives will be successful.

Management's Report

Management is responsible for the preparation of the financial statements and the consistent presentation of all other financial information in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and the relevant and reliable information is produced in a timely manner.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.



Brian D. McGill
Chief Financial Officer
March 5, 2001

Auditors' Report

To the Shareholders of Patch Safety Services Ltd.

We have audited the consolidated balance sheets of Patch Safety Services Ltd. (formerly High Five Oilfield Services Ltd.) as at December 31, 2000 and 1999 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

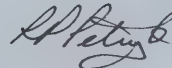


Chartered Accountants

Calgary, Alberta
February 23, 2001

Consolidated Balance Sheets*Patch Safety Services Ltd.**(Formerly High Five Oilfield Services Ltd.)**December 31*

	2000	1999
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 272,344
Receivables	927,959	3,274
Inventory	23,760	-
Prepays	50,130	31,000
Deposit on major transaction	-	25,000
	<u>1,001,849</u>	<u>331,618</u>
Property and equipment (Note 4)	1,604,622	-
Goodwill (Note 5)	678,543	-
	<u>\$ 3,285,014</u>	<u>\$ 331,618</u>
Liabilities		
Current		
Bank indebtedness (Note 6)	\$ 199,891	\$ -
Payables and accruals	323,451	16,529
Current portion of long-term debt (Note 7)	150,000	-
	<u>673,342</u>	<u>16,529</u>
Future income taxes (Note 9)	77,000	-
Long-term debt (Note 7)	912,500	-
	<u>1,662,842</u>	<u>16,529</u>
Shareholders' Equity		
Capital stock (Note 8)	1,754,278	328,424
Deficit	(132,106)	(13,335)
	<u>1,622,172</u>	<u>315,089</u>
	<u>\$ 3,285,014</u>	<u>\$ 331,618</u>

*See accompanying notes to the consolidated financial statements.**On behalf of the Board**Director**Director*

Patch Safety Services Ltd.
(Formerly High Five Oilfield Services Ltd.)
Years Ended December 31

Consolidated Statements of Loss and Deficit

	2000	1999
Revenue	\$ 1,586,900	\$ -
Interest income	3,688	5,068
	<u>1,590,588</u>	<u>5,068</u>
 Expenses		
Operating	937,406	-
Depreciation and amortization	123,763	-
General and administrative expenses	760,043	18,403
Interest and bank charges	46,147	-
	<u>1,867,359</u>	<u>18,403</u>
 Net loss before income taxes	(276,771)	(13,335)
Future income taxes (recovery) (Note 9)	(158,000)	-
Net loss	<u>\$ (118,771)</u>	<u>\$ (13,335)</u>
 Loss per share (Note 2)	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
 Deficit, beginning of year	\$ (13,335)	\$ -
Net loss	(118,771)	(13,335)
Deficit, end of year	<u>\$ (132,106)</u>	<u>\$ (13,335)</u>

See accompanying notes to the consolidated financial statements.

Patch Safety Services Ltd.

(Formerly High Five Oilfield Services Ltd.)

Years Ended December 31

Consolidated Statements of Cash Flows

	2000	1999
Increase (decrease) in cash and cash equivalents		
Operations		
Net loss	\$ (118,771)	\$ (13,335)
Depreciation and amortization	123,763	-
Future income taxes	(158,000)	-
Change in non-cash working capital (Note 13)	(218,009)	(4,163)
	(371,017)	(17,498)
Financing		
Repayments on operating line of credit (net)	468,364	-
Proceeds from long-term debt	500,000	-
Repayment of long-term debt	(366,599)	-
Issue of shares, net of costs	1,263,854	228,424
	928,891	228,424
Investing		
Deposit on major transaction	-	(25,000)
Purchase of subsidiary	(775,000)	-
Purchase of property and equipment	(90,935)	-
Proceeds on sale of property and equipment	3,270	-
Change in non-cash working capital	42,776	-
	(819,889)	(25,000)
Net (decrease) increase in cash and cash equivalents	(262,015)	185,926
Cash and cash equivalents,		
Beginning of year	272,344	86,418
End of year	\$ 10,329	\$ 272,344
(Bank indebtedness) cash and cash equivalents are comprised of:		
Cash and cash equivalents	\$ 10,329	\$ 272,344
Operating line of credit	(210,220)	-
	\$ (199,891)	\$ 272,344

See accompanying notes to the consolidated financial statements.

*Patch Safety Services Ltd.**(Formerly High Five Oilfield Services Ltd.)**December 31, 2000***1 Nature of operations**

The Company was formed for the purpose of operating, evaluating and acquiring assets and companies related to providing H₂S safety services primarily to the oil and gas industry in Western Canada. The Company completed its major transaction during the year (see Note 3).

2 Summary of significant accounting policies**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Patch H₂S Safety Services Ltd.

Cash and cash equivalents

Cash and cash equivalents include bank balances and highly liquid temporary money market instruments with original maturities of three months or less. Bank indebtedness is considered to be a financing activity.

Financial instruments

The Company has estimated the fair value of its financial instruments, which include cash and cash equivalents, receivables, bank indebtedness, payables and accruals and long-term debt. The Company used valuation methodologies and market information available as at year-end and has determined that the carrying amounts of such financial instruments approximate fair value in all cases.

Use of estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from and affect the results reported in these financial statements.

Loss per share

Loss per share is calculated based upon the weighted average number of shares outstanding during the year of 4,203,836 (1999 – 1,694,521). The fully diluted loss per share, which is calculated on the basis the warrants and stock options were converted to common shares at their issue date, is anti-dilutive.

Depreciation

Depreciation is applied, using the declining balance method, to write off the costs of property and equipment over their expected useful lives, as follows:

Equipment	20%
Automobiles	30%
Computer	30%
Leasehold improvement	20%

Revenue

Revenue is recognized using the completed contract method.

Stock-based compensation plan

The Corporation has a stock option plan whereby options to acquire common shares of the Company may be granted to the directors, officers and employees. No compensation expense is recognized for this plan when stock options are issued. Any consideration paid on the exercise of stock options is credited to share capital.

2. Summary of significant accounting policies (Continued)

Future income taxes

The Corporation uses the liability method of tax allocation accounting, whereby temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the period that the temporary differences are expected to reverse.

③ Business combination

Effective September 1, 2000 the Company acquired all of the issued and outstanding shares of Patch H₂S Services Ltd., a privately owned corporation, for a purchase price of \$1,460,000 provided by cash consideration of \$800,000, 200,000 common shares at a price of \$0.30 per share and a 6%, \$600,000 debenture due on August 31, 2003.

The acquisition was accounted for using purchase method and the consolidated financial statements include the results of operations from the date of acquisition. The fair value of the assets acquired is summarized as follows:

Property and equipment	\$	1,640,720
Working capital		(193,164)
Long-term debt		(329,099)
Goodwill		678,543
Future income taxes		(337,000)
Purchase price	\$	<u>1,460,000</u>

④ Property and equipment

			2000	1999
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Vehicles	\$ 511,845	\$ 45,201	\$ 466,644	\$ -
Computer	28,643	4,069	24,574	-
Equipment	1,174,546	73,603	1,100,943	-
Leasehold improvements	13,351	890	12,461	-
	<u>\$ 1,728,385</u>	<u>\$ 123,763</u>	<u>\$ 1,604,622</u>	<u>\$ -</u>

⑤ Goodwill

Goodwill which represents the portion of the excess purchase price paid on the acquisition of businesses in excess of the value assigned to identifiable net assets acquired is amortized on a straight-line basis over 10 years from the date of acquisition. The value of goodwill is periodically evaluated and where there is considered to be impairment in the estimated net recoverable amount of the goodwill, based upon expected cash flows, the goodwill is written down to estimated value.

⑥ Bank indebtedness

The Company has an operating line of credit, payable on demand, to a maximum of \$400,000 bearing interest at bank prime plus 1.25%. Security for the operating line of credit has been provided by a general security agreement on all book debts and property of the Company.

7 Long-term debt

	2000	1999
Demand loan bearing interest at prime plus 1.75%, repayable in monthly principal payments of \$12,500 plus interest until January 2004	\$ 462,500	\$ -
6% convertible redeemable subordinate debenture, repayable interest only commencing January 31, 2001 with the principal due on August 31, 2003	600,000	-
	1,062,500	-
Less current portion	150,000	-
	\$ 912,500	\$ -

Security for the bank loan is provided as outlined in Note 6.

The debenture is convertible at a conversion price of \$0.30 per common share of the Company.

The principal repayments in each of the next four years are due as follows:

2001	\$ 150,000
2002	150,000
2003	750,000
2004	12,500

8 Capital stock*a) Authorized:*

Unlimited number of common shares without par value

Unlimited number of preferred shares, issuable in series.

b) Issued and outstanding:

	2000		1999	
Common	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	2,500,000	\$ 328,424	1,000,000	\$ 100,000
Issued for cash	5,000,000	1,500,000	1,500,000	300,000
Issued on acquisition of subsidiary	200,000	60,000	-	-
Less share issue costs	-	(134,146)	-	(71,576)
Balance, end of year	7,700,000	\$ 1,754,278	2,500,000	\$ 328,424

8. Capital stock (Continued)

c) Stock options

Pursuant to an incentive stock option plan, a maximum of 10% of the issued and outstanding common shares of the Company are reserved from time to time, for issuance to eligible participants. Options prices and vesting terms are determined by the directors at the time of granting. The term of options granted does not exceed five years. At December 31, 2000, options were outstanding for the issue of 750,000 common shares (1999 – 250,000) to directors, officers and agent, with exercise prices from \$0.20 to \$0.30 per share, expiring August 31, 2001 to July 2004.

	2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Fixed Options				
Outstanding at beginning of year	250,000	\$ 0.21	100,000	\$ 0.20
Granted	500,000	0.30	150,000	0.22
Outstanding at end of year	750,000	0.27	250,000	0.21

d) Warrants

Under the terms of a prospectus dated June 20, 2000, the Company issued 5,000,000 units at a price of \$0.30 per unit with each unit consisting of one common share of the capital of the Company and one share purchase warrant. Each Warrant entitles the holder to purchase one common share at a price of \$0.40 until August 31, 2001.

9 Income taxes

	2000	1999
a) Provision for income taxes		
Net loss before income taxes	\$ (276,771)	\$ (13,335)
Expected tax recovery at 44%	\$ (121,800)	\$ (6,000)
Unrecorded tax benefit		
from loss carryforward	-	6,000
Share issue costs	(33,400)	-
Other	2,800	-
Income tax recovery – future	\$ (158,000)	\$ -

b) Temporary differences for future income taxes comprised of the following:

Property and equipment	\$ 373,000	\$ -
Non-capital losses carry forward	(194,000)	-
Share issue costs	(102,000)	-
Future income taxes	\$ 77,000	\$ -

9. Income taxes (Continued)

c) Tax losses

The Company has incurred losses for income tax purposes of approximately \$824,900 which includes \$440,400, the related benefit of which has been recognized in the financial statements as a reduction of future income taxes and \$384,500, the related benefit of which has not been recognized. Unless sufficient taxable income is earned these losses will expire as follows:

2005	\$	384,500
2006		182,800
2007		257,600

10 Related party transactions

During the year, the Company rented equipment from a company controlled by certain directors. The total rental payments for the year were \$11,001 (1999 – nil), of which \$6,144 remains in payables and accruals at year-end. These purchases were made at normal market prices, terms and conditions.

11 Geographic segments

The Company's H₂S safety services are conducted in Canada and the United Arab Emirates (U.A.E.). Management considers the operations of the Company to be one segment. The following information relates to the Company's geographic areas of operation:

	2000	1999
Revenues		
Canada	\$ 1,493,780	\$ -
U.A.E.	96,808	-
	<u>1,590,588</u>	<u>-</u>
Property and equipment		
Canada	\$ 1,315,122	-
U.A.E.	289,500	-
	<u>\$ 1,604,622</u>	<u>\$ -</u>

12 Commitments

The Company leases certain shop and office space under operating leases that extend beyond one year. Future minimum lease payments under these leases are as follows:

2000	\$	101,651
2001		15,203

Subsequent to year end, the Company leased certain vehicles under operating leases that extend beyond one year. Future minimum lease payments under these leases are as follows:

2000	\$	144,019
2001		152,546
2002		126,154
2003		6,127

13 Supplementary cash flow information

	2000	1999
Increase (decrease) in non-cash operating working capital		
Accounts receivable	\$ (924,685)	\$ (20,692)
Inventory	(23,760)	-
Prepays	(19,130)	-
Payable and accruals	264,146	16,529
Non-cash working capital of subsidiary at the date of acquisition, exclusive of bank indebtedness	485,420	-
Net change in non-cash operating working capital	\$ (218,009)	\$ (4,163)

14 Comparative figures

Certain comparative figures have been restated to conform with the current presentation.

Officers

Gerald W. Maetche⁽²⁾
President, Chief Executive Officer
Calgary, Alberta

Brian D. McGill⁽²⁾
Chief Financial Officer
Calgary, Alberta

Directors

Gerald W. Maetche⁽²⁾
President, Chief Executive Officer
Calgary, Alberta

Peter S. Ffoulkes-Jones⁽¹⁾⁽²⁾
Secretary
Calgary, Alberta

Robert P. Petryk⁽²⁾⁽³⁾
Calgary, Alberta

Raymond G. Flanagan⁽¹⁾
Sherwood Park, Alberta

Gary F. O'Connor⁽¹⁾
Red Deer, Alberta

Neil K. Martin⁽¹⁾
Red Deer, Alberta

Notes:

(1) Member of Audit Committee

(2) Member of Executive Committee

(3) Member of Compensation Committee

Auditors

Grant Thornton, Chartered Accountants
Calgary, Alberta

Bankers

National Bank of Canada
Calgary, Alberta

Transfer Agent and Registrar

CIBC Mellon Trust Company
Calgary, Alberta

Legal Counsel

Drummond Phillips & Sevalrud
(on behalf of the Corporation)

Burstall Ward
(on behalf of the Agent)

Macleod Dixon
(special tax counsel to the Corporation)

Stock Listing

Canadian Venture Exchange
Symbol: PSS

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